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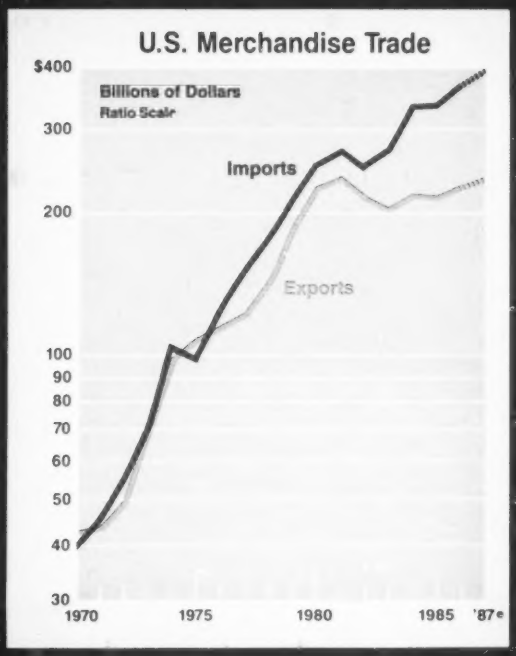
The Conference Board
Economic Research Program

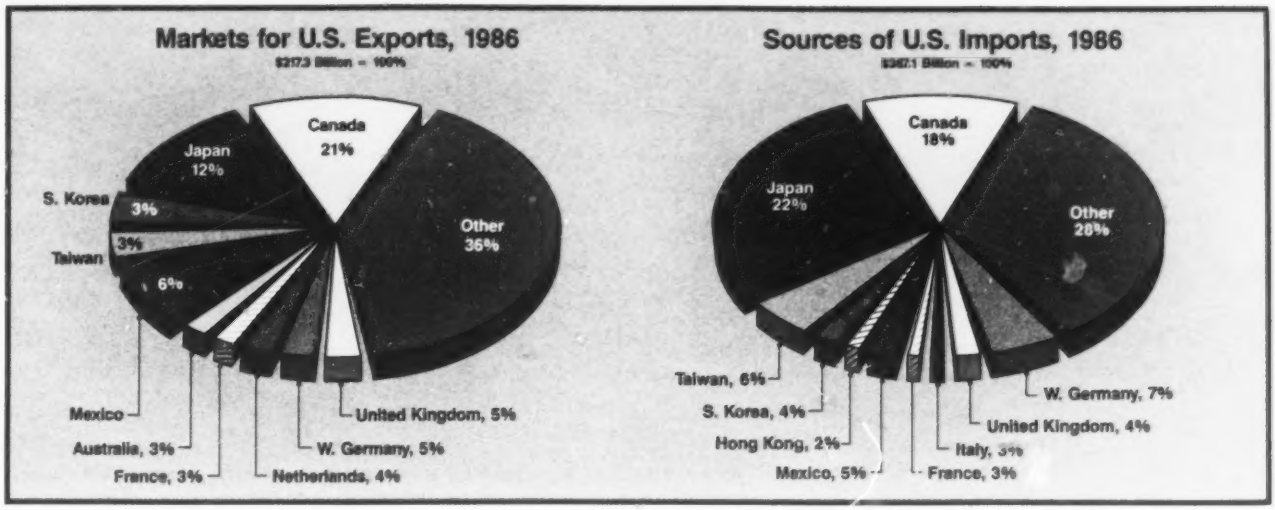
U.S. Foreign Trade

Economic Road Maps
Nos. 2013-2014
November, 1987

Conventional wisdom has it that a decline in the value of the dollar would reduce the huge United States trade deficit and thus bring about a long-expected reversal in the country's trade account. But in spite of a 30% decline in the dollar's trade-weighted value from its March 1985 high, the turnaround has yet to materialize. The merchandise trade account—which was in surplus for the last time in 1975—has continued to deteriorate, reaching a record deficit of $144 billion in 1986. That deficit is expected to top $150 billion this year. As a result of the worsening trade deficit, the Reagan administration is under pressure to protect domestic industries from foreign competition, and Congress is currently attempting to produce a trade bill that would address this issue.

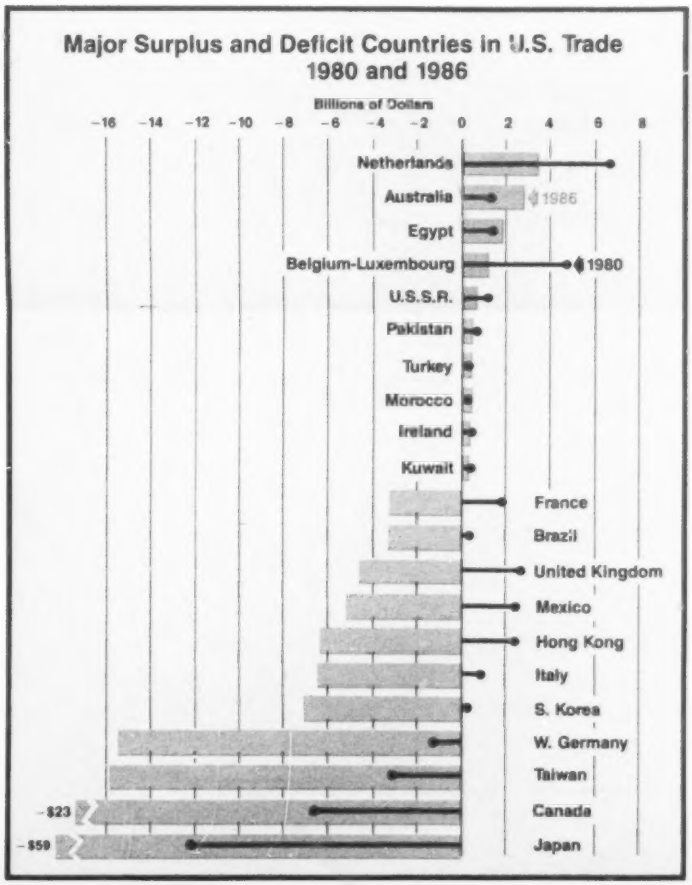


U.S. merchandise exports were $224 billion in 1986, the same as in 1980; imports over the same period rose almost 50%, from $250 billion to $369 billion. The two largest customers for U.S. exports are Canada and Japan which together accounted for one third of all U.S. exports in 1986; the same two countries supplied 40% of all U.S. imports that year and are the ones with which the U.S. has the highest trade deficits. The $59 billion deficit with Japan alone accounts for 40% of the total U.S. trade deficit.



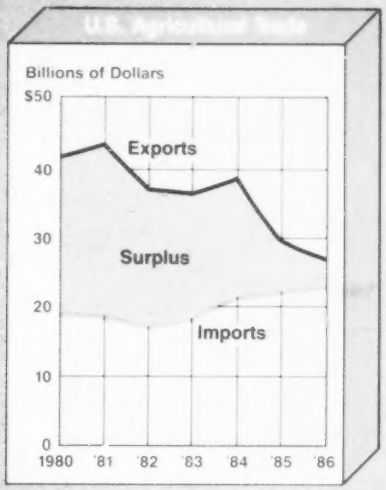
The chart (bottom left) clearly indicates how the U.S. trade position has deteriorated. The bilateral surpluses of 1980 shriveled and in many cases turned into substantial deficits by 1986, while the deficits of 1980 doubled and tripled. Thus, the U.S. trade surplus with the Netherlands declined by half, while the deficit with West Germany rose tenfold. U.S. trade with Hong Kong, with which we had a $2 billion surplus in 1980, deteriorated to a $6 billion deficit in 1986. Exports to our major trading partners are in most cases lower today than they were in 1980—in the case of the OPEC countries they are down substantially, but exports to the European Community are also lower. On the other hand, imports from most of these countries (excepting OPEC) increased enormously. Thus, while U.S. exports to France, West Germany and Italy were down by 4 to 12% in 1986, imports from these countries were more than twice as high as in 1980. In the case of the newly industrialized countries of the Pacific (NICs), U.S. exports rose, but import growth skyrocketed.

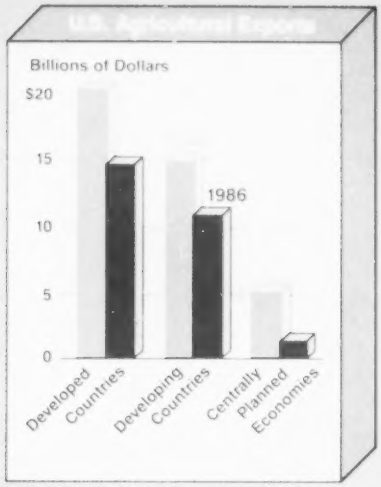
The U.S. has always been a major exporter of agricultural products, in which it has recorded sizable

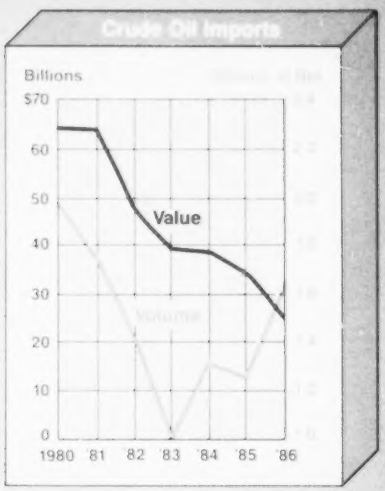


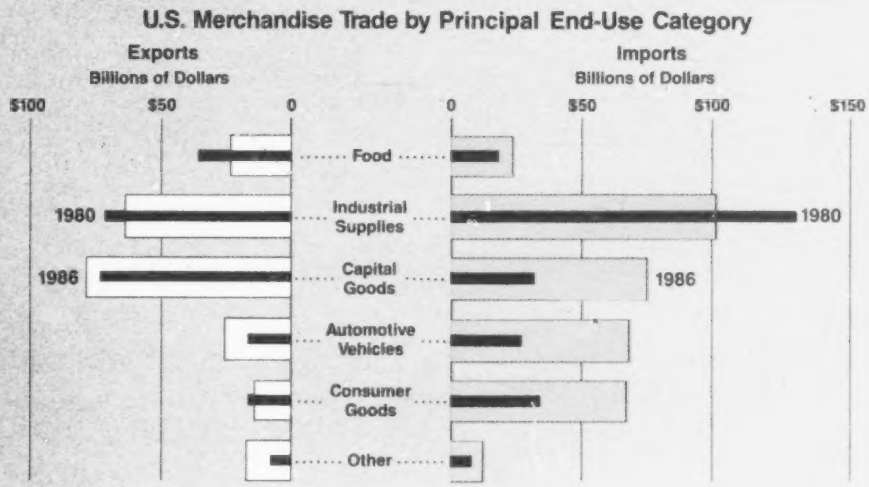
Change in U.S. Trade 1980-1986

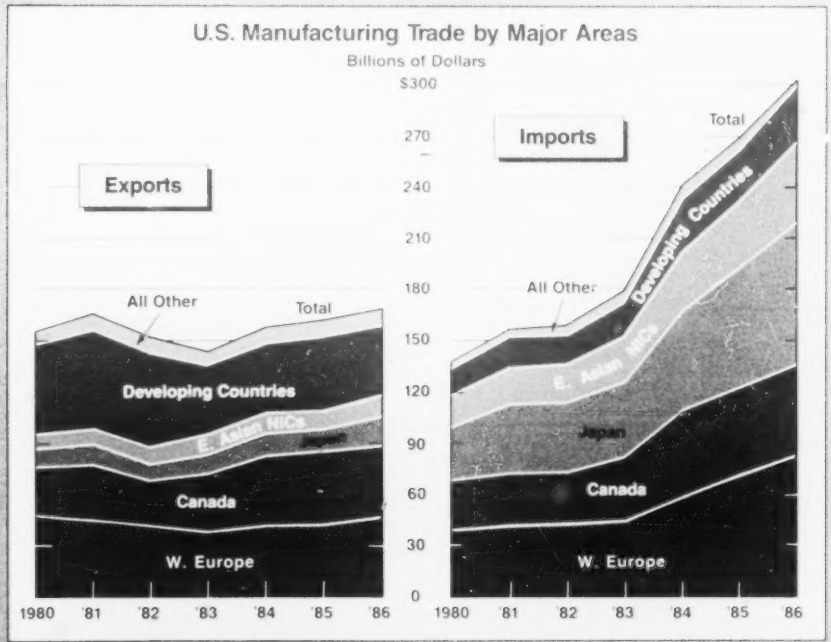
	Exports %	Imports %
S. Korea	+36	+205
Australia	+36	+ 3
Japan	+29	+ 116
Canada	+28	+ 63
Taiwan	+27	+ 189
Hong Kong	+12	+ 88
Singapore	+11	+ 146
W. Germany	− 4	+ 111
France	− 4	+ 91
Netherlands	− 9	+142
United Kingdom	−10	+ 57
Brazil	−11	+ 84
Italy	−12	+142
Mexico	−18	+ 37
Belgium-Luxembourg	−19	+109
Switzerland	−21	+ 88
China	−33	+351
Indonesia	−39	− 33
Saudi Arabia	−40	− 70
Nigeria	−65	− 76











surpluses over the years. This surplus is shrinking, however, as exports continue to decline overall and imports rise. Farm exports have declined with respect to all world regions; worldwide overproduction and the resulting market glut, coupled with foreign government policies to protect domestic producers from declining prices, are but a few of the reasons for the shrinking surplus.

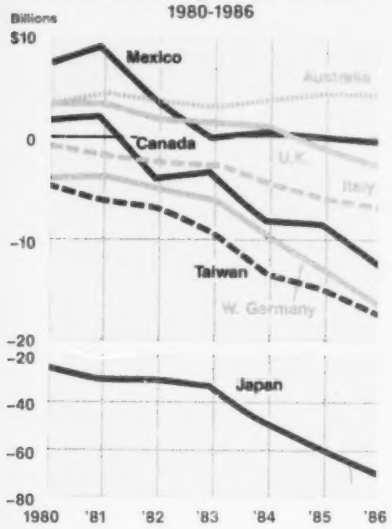
As a result of the oil shock of the 1970s, oil imports have declined, in part the result of conservation measures. But the recent upswing in the volume of oil imports coupled with higher oil prices will eventually result in a higher import bill.

In the manufacturing sector, exports are stagnating while imports have more than doubled since 1980. Imports of capital goods and consumer goods as well as of automotive vehicles have risen dramatically. Capital goods imports account for almost one-third of producers durables today, from less than 10% ten years ago.

Several factors have contributed to the huge trade deficits of the past few years:

- Appreciation of the dollar in the mid 1980s led to an influx of cheaply priced (in dollar terms) foreign goods, while high-priced U.S. goods were unable to compete in world markets. The recent decline in the value of the dollar has so far failed to turn U.S. purchasers away from foreign goods. Foreign merchandise is often perceived to be of higher quality than domestic goods and many foreign importers have reduced their margins in order to maintain their market shares.

Manufacturing Trade Balance
1980-1986



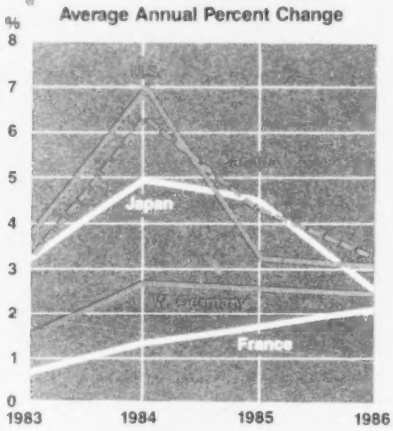
• In the past few years the U.S. economy has expanded at a faster rate than those of some of our trading partners, attracting a flood of imports. At the same time the sluggish economies of some of its competitors, especially Japan and West Germany, have been unable to absorb a growing U.S. export volume.

• The growing burden of foreign debt servicing has forced many less-developed countries (LDCs) to reduce their imports. But LDCs with large foreign debts also have to maintain their trade surpluses in order to service their debts.

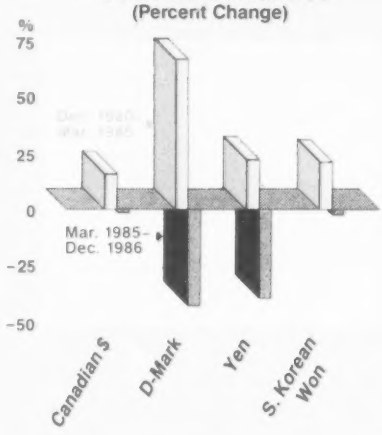
• Currencies of many of the NIC countries are pegged to the dollar in some way; other currencies have moved much less against the dollar than those of the major industrial countries. The drop in the dollar will have little impact on their imports to the U.S.

The U.S. has traditionally recorded a large surplus on its trade in services. In 1981 it had a $42 billion surplus in services, but mainly as a result of large

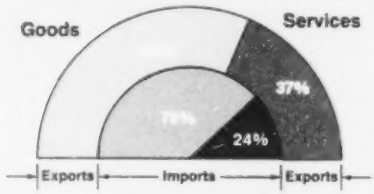
Real GNP
Average Annual Percent Change



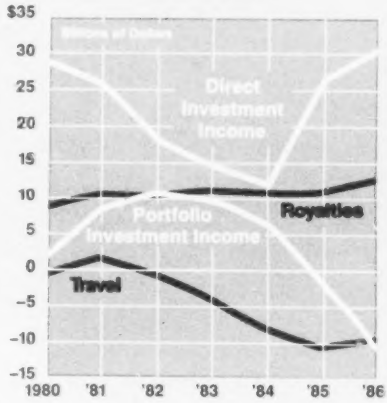
The Dollar Against Selected Currencies
(Percent Change)



U.S. Trade in Goods and Services
1986



Selected U.S. Service Balances



interest payments on foreign dollar holdings the surplus narrowed to $19 billion in 1986.

The reduction in the surplus on the services account coupled with a deepening merchandise trade deficit will result in further deterioration in the current account balance this year.

Eva Culen

Sources: U.S. Departments of Commerce and Labor; Morgan Guaranty Trust Co.; International Monetary Fund; The Conference Board.

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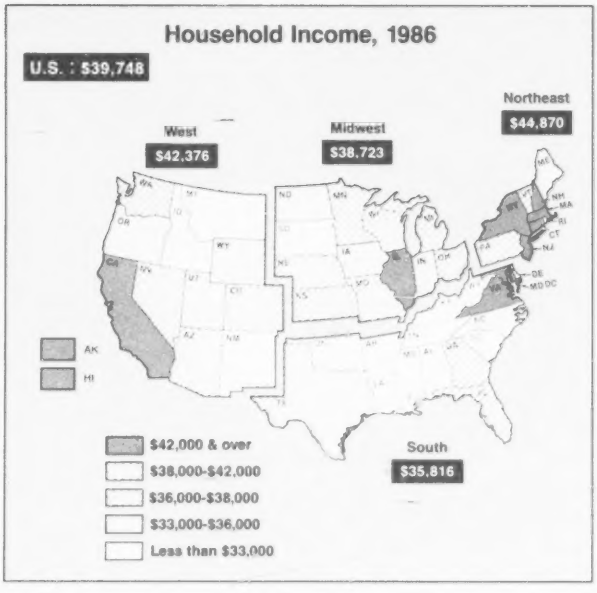
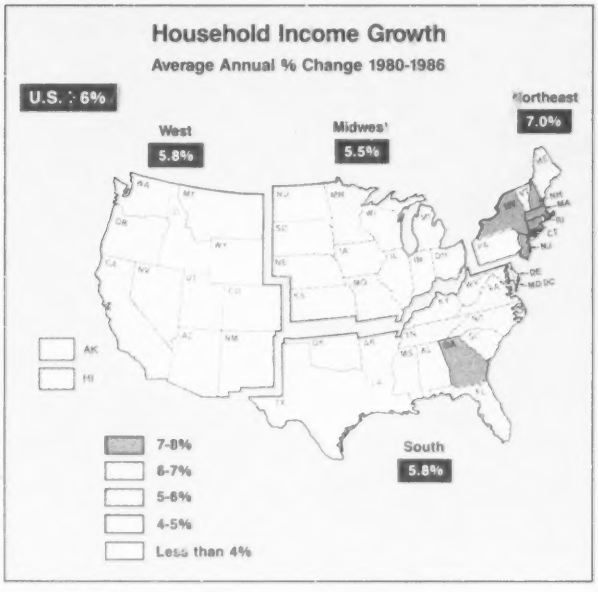
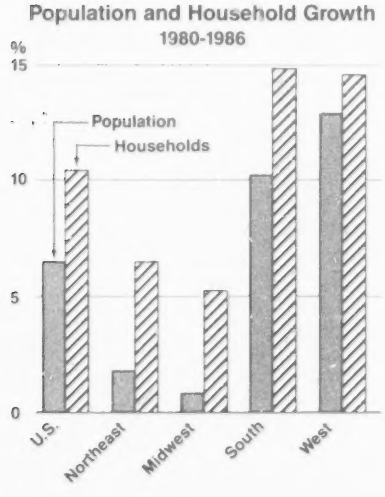
U.S. Regions in the 1980s

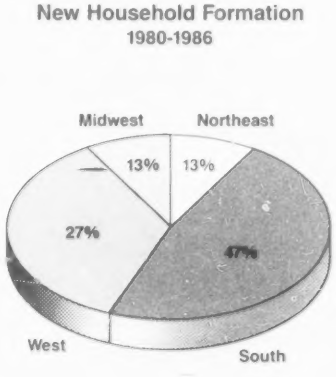
Nos. 2015-2016 February, 1988

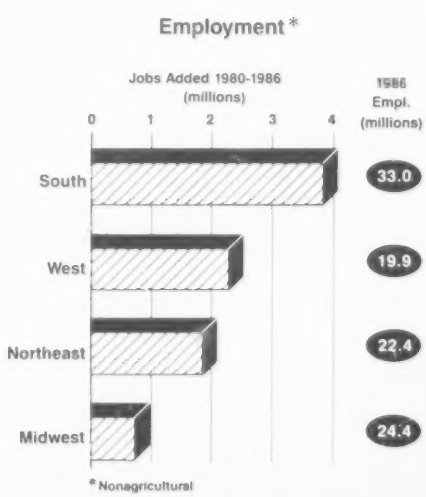
Throughout the 1980s, U.S. economic growth has been centered in coastal regions with broad-based manufacturing sectors and relatively little reliance on agricultural or extractive industries. In these regions, developing high-tech and defense-related industries are engines of growth. These characteristics contrast with those of the weakest regions, which tend to rely on agriculture and mining, and on manufacturing industries in long-term decline. For the remainder of the 1980s, there will be limited changes in this economic map. One bright spot involves the recent improvement in the competitiveness of U.S. goods abroad. That could spur output and help to reinvigorate the central regions of the country, as well as extend the nation's economic expansion.



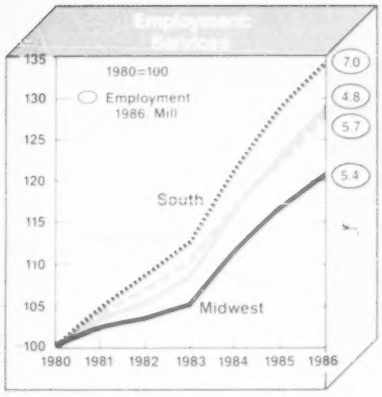


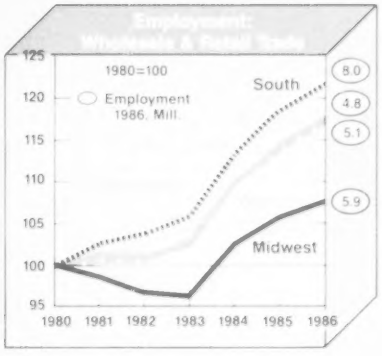


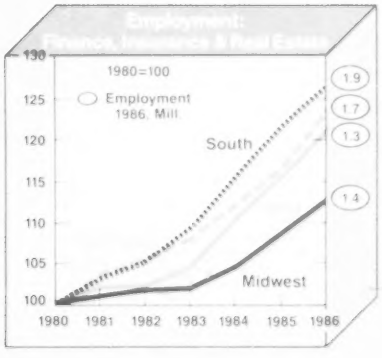




Growth in Regional Employment



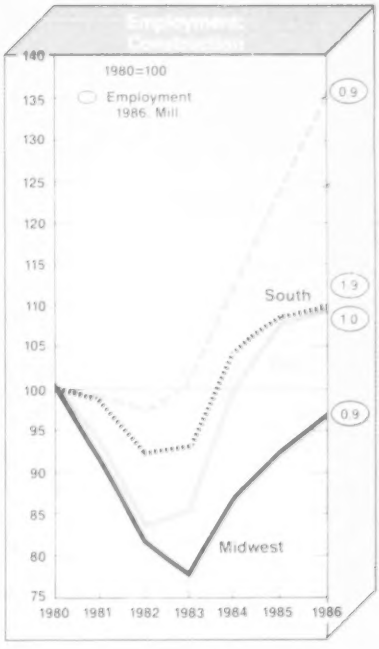


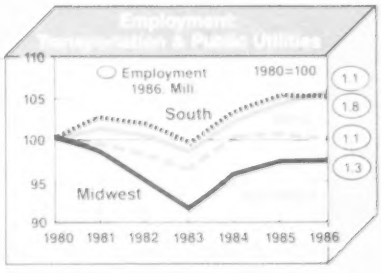


Since the mid-1960's, regional economic development in the United States has been characterized by persistent shifts of population and jobs from the Midwest and Northeast to the South and West. Between 1980 and 1986, the populations of the Southern and Western regions expanded by about 10% and 12%, respectively, compared to gains of roughly 1% in the Midwest and 3% in the Northeast. Largely the result of in-migration, the South accounted for 47% of new households formed nationally; the West claimed 27 percent.

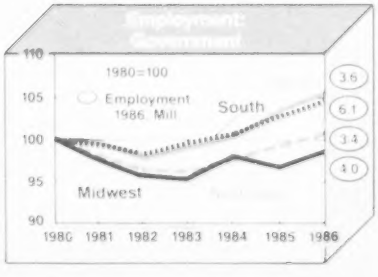
Relatively rapid population growth in the South and West facilitated the nation's largest employment gains. From 1980 to 1986, employment in the South rose by 4 million jobs; 2.5 million jobs were added in the West, despite prolonged cyclical contractions in several states. By contrast, migration from the Midwest accelerated in the 1980s in response to corporate downsizing and disappearing job opportunities. From 1980 to 1986, Midwestern population increased by barely 1% and about 1 million new jobs were added.

The domination of national employment gains by the South and West cuts across most all sectors. As a percent of 1980 employment levels, both the South and West have added more jobs than either the Midwest or the Northeast in every sector, except construction and FIRE. Moreover, by relying relatively less than the other regions on manufacturing, employment in the South and West has undergone milder declines during recessionary



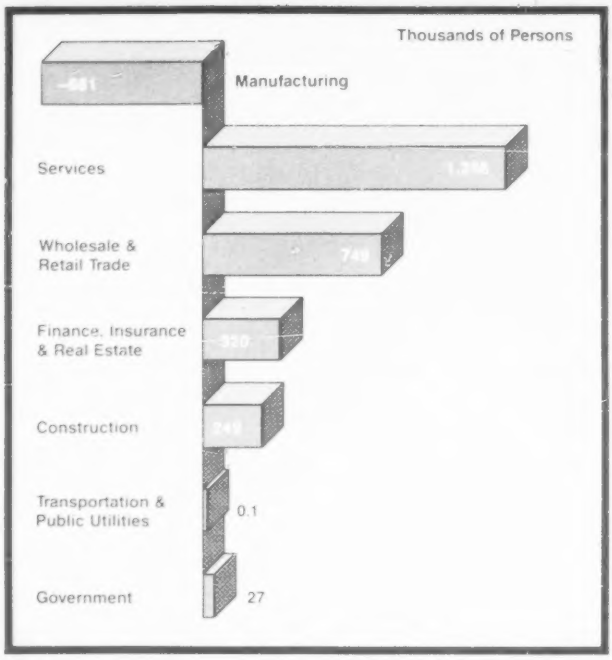


periods and more stable growth during expansions. In fact, while the Midwest and Northeast surrendered more than 600 thousand manufacturing jobs each during the 1980 to 1986 period, the South lost only 167 thousand jobs and the West added 70 thousand. Even in the financial sector, customarily

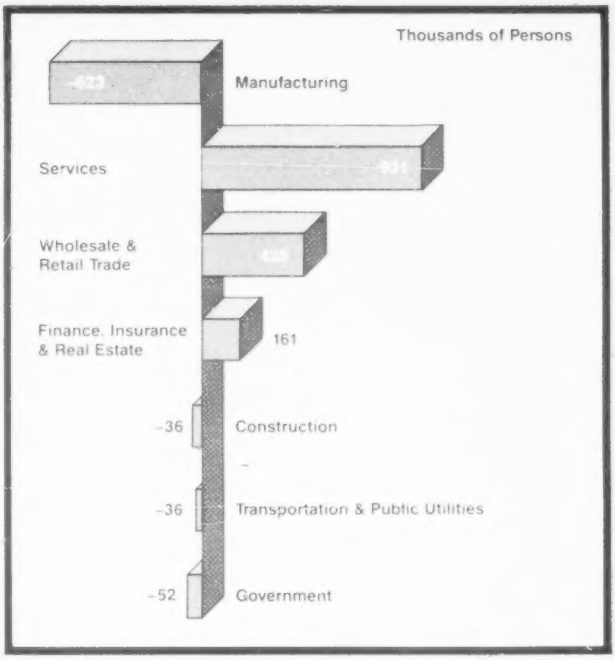


dominated by the Northeast, the South added more jobs than any other region over the same period. But the fastest growth occurred in the services sector (except in the Northeast, where employment growth was led by a surge in construction activity). In absolute terms, services created the most

NORTHEAST: Employment Change, 1980-86



MIDWEST: Employment Change, 1980-86

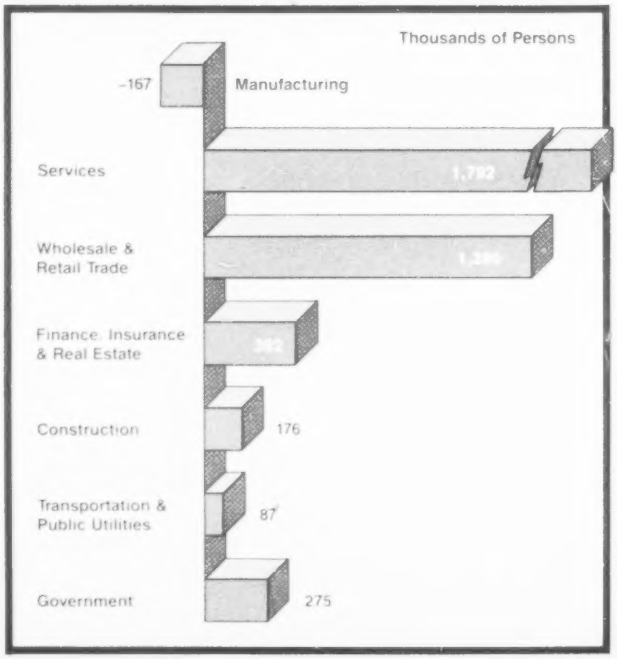


jobs in all regions, for a total of some 5 million over the six-year period.

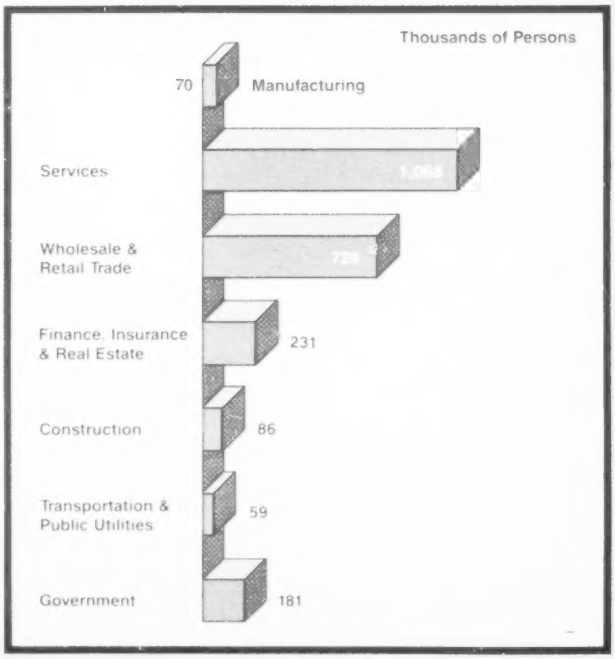
Despite the South's strong employment gains, household income in the region trails the rest of the country. At $36,000 in 1986, average household income in the South was $9,000 less than in the Northeast, the national leader. Moreover, the gap has been widening in the 1980s: Between 1980 and 1986, household income climbed at a 7% annual rate in the Northeast and by 5.8% in the South.

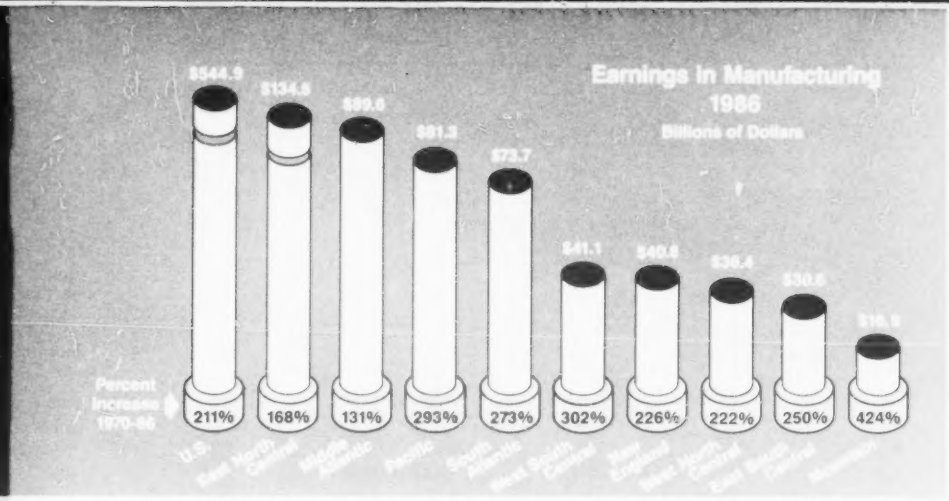
Between 1970 and 1986, manufacturing earnings (as a percent of total earnings) declined in all nine Census regions, except the Mountain region. The decline was most severe in the East North Central and Middle Atlantic regions, which have the nation's largest manufacturing sectors. Since 1970, earnings derived from manufacturing have grown by 131% in the Middle Atlantic region and by 168%

SOUTH: Employment Change, 1980-86



WEST: Employment Change, 1980-86





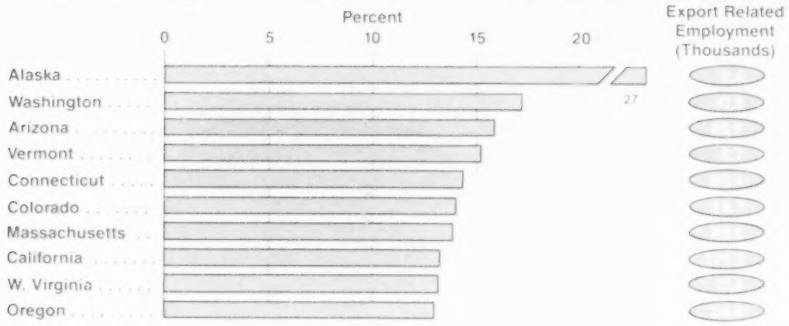
in the East North Central, compared to the national average increase of 211 percent.

Over the next several years, expanding export volume should provide an additional boost to manufacturing nationally both in terms of employment and earnings. New England and the Pacific region, with eight of the ten states with the largest percentage of export-related manufacturing jobs, stand to benefit most directly from export growth.

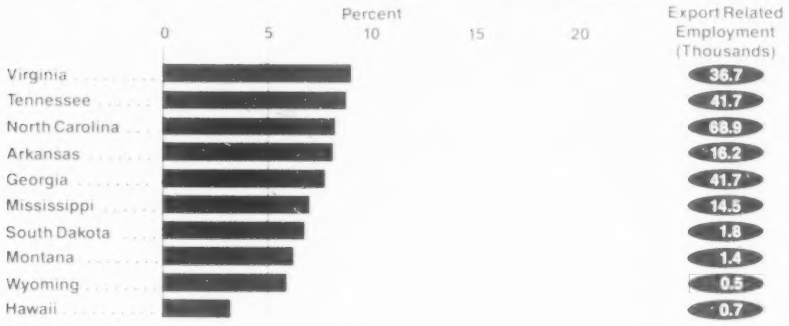
Eva Culen
Steven Malin

Sources: U.S. Bureau of the Census; U.S. Department of Labor; The Conference Board.

States with Highest Percent of Export-Related Employment, 1984



States with Lowest Percent of Export-Related Employment, 1984



Manufacturing Earnings as % of Total Earnings 1970 and 1986

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International Financial Markets

Nos. 2017-2018 April, 1988

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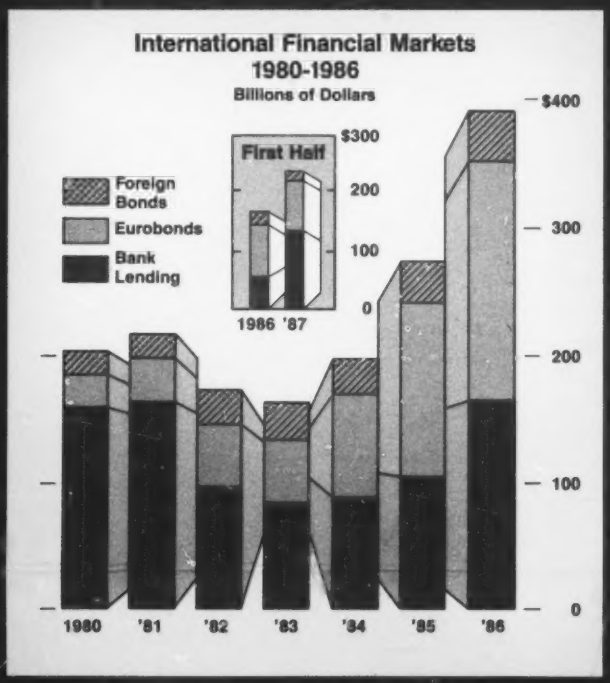
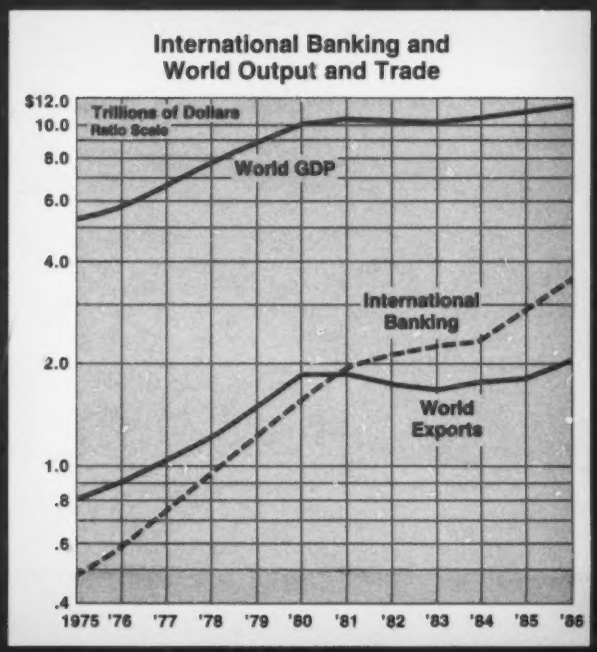
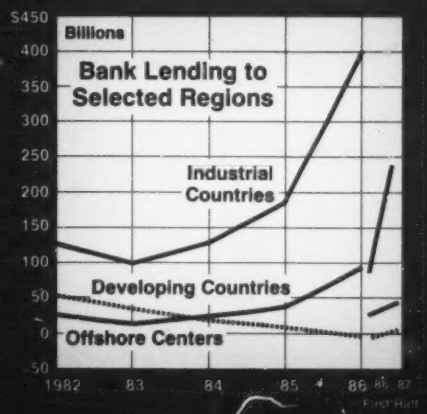
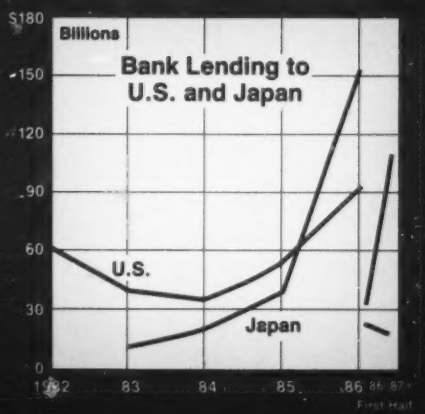
International financial markets have greatly influenced the flow of savings and investment and the transfer of resources across national boundaries. These markets have grown quickly—funds raised in them have doubled since 1980. Structural changes have been rapid too: liberalization, deregulation, and new instruments and techniques sped internationalized activity as offshore markets grow faster than domestic ones. Since 1981 international banking (gross Eurocurrency loans to residents and nonresidents) has grown more rapidly than world trade. Between 1980 and 1986 world exports advanced 1% per year, while the banking sector grew 15% annually.



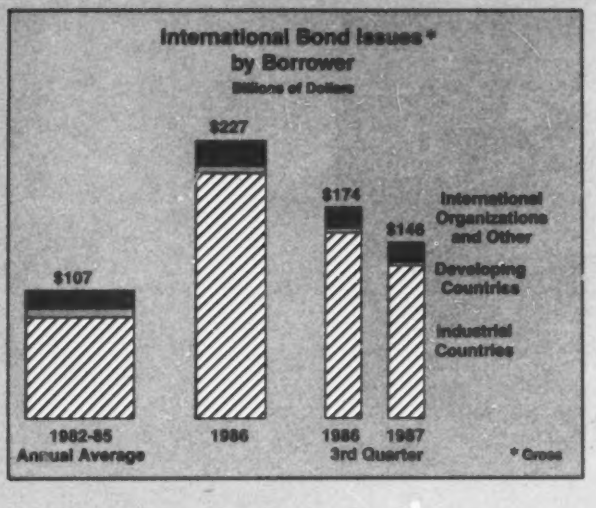






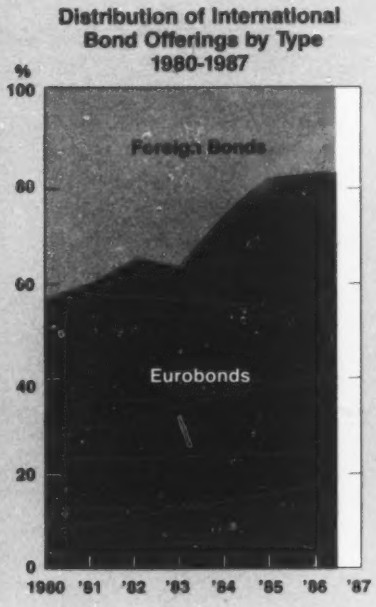
Developed countries were the major borrowers in international markets during the 1980s as private credit dried up for the developing countries following the debt crisis. Loans to industrial countries doubled between 1985 and 1986, with the Japanese becoming the world's largest borrower in 1986.

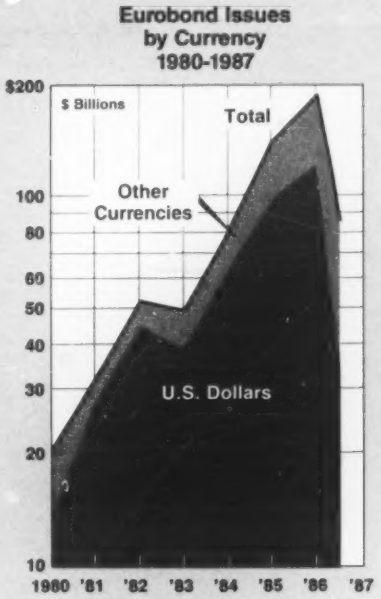
Borrowers raised some $391 billion in international financial markets in 1986, largely through syndicated bank loans, Eurobonds and foreign bonds—an increase of about 40% over each of the past two



years. Totals for 1987, however, are about the same as in 1986. In the 1980s, the trend in financing vehicles has moved away from bank loans toward the international bond market. The Eurobond market grew from $24 billion in 1980 to $188 billion in 1986 through borrowings by developed countries. Bank loans were heavily favored by the developing countries in the 1970s, but loss of access to credit reduced demand for bank lending until 1986, when corporate demand for financing of mergers and takeovers revived this sector. The private sector is now the biggest borrower, while in the past governments were the major players.

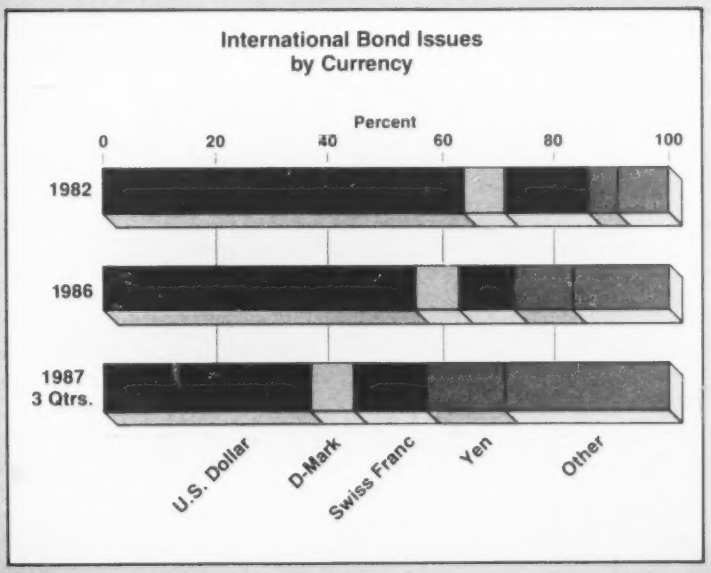
Liberalization of exchange controls, greater market access, and financial innovation spurred the growth of the international bond market, which comprises Eurobonds and foreign bonds. A total of $226 billion in bonds was placed internationally in 1986, more than double the amount of 1985. However, the October 1987 stock market crash caused a slump in Eurobond borrowing. The volume of Eurobonds and foreign bonds was of about equal size in the 1970s, but by 1986 Eurobonds accounted for 80% of international bond issues.

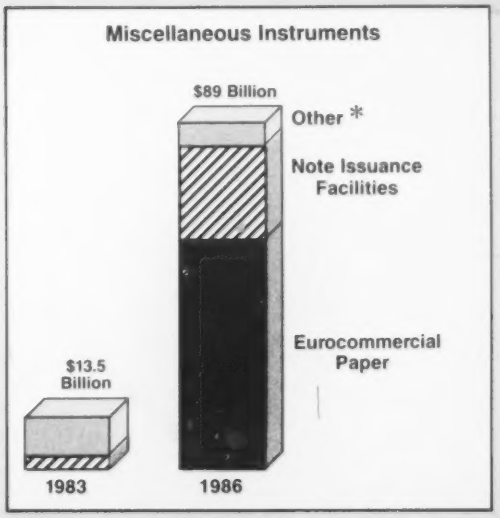




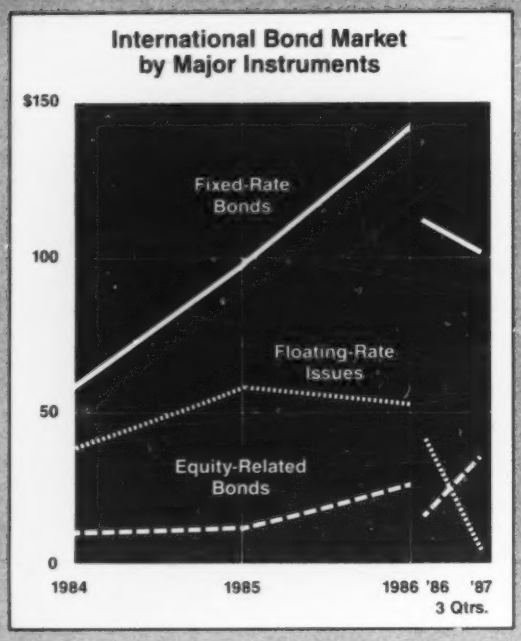
U.S. dollar-denominated bonds have always dominated the market by sheer volume, rising from $14 billion in 1980 to $118 billion in 1986, but their share in international issues declined from 64% in 1982 to 37% in the first 9 months of 1987. Over the same period, the share of yen-denominated issues rose from 5% to 14 percent. Deregulation and the decline in the value of the dollar also contributed to the expansion of the nondollar sector.

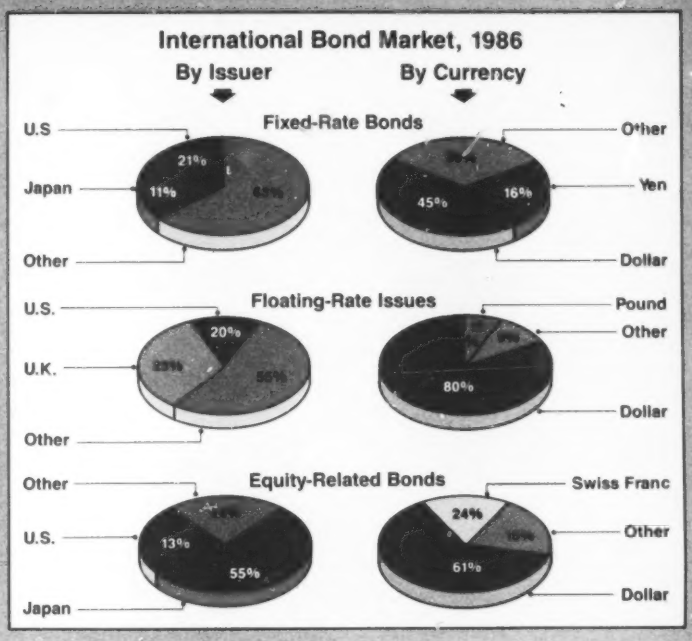
Falling interest rates brought an explosion in fixed-rate bonds, which tripled in just two years before declining by 10% in





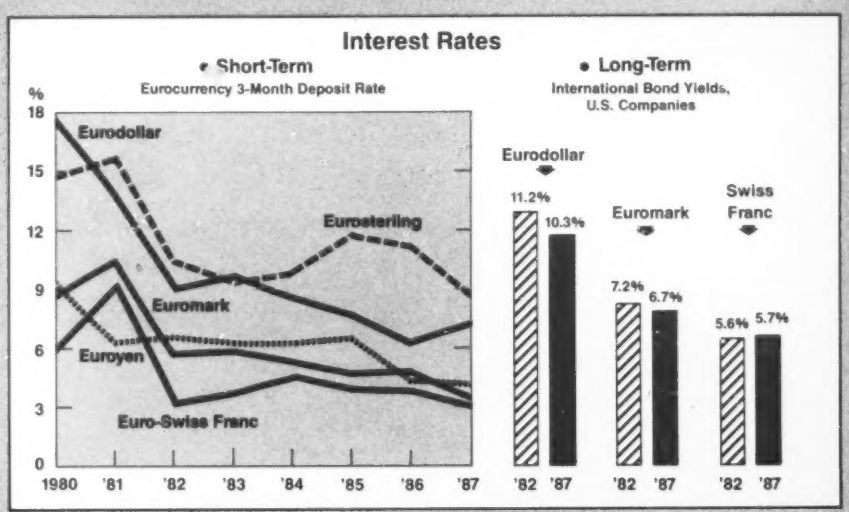
* Bankers Acceptance, Commercial Paper Backups, Merger-Related Stand-by Agreements, Other Instruments.

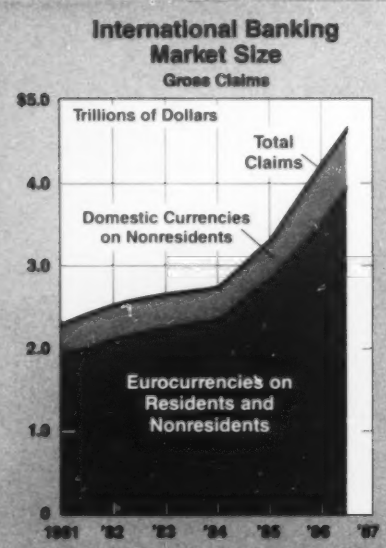


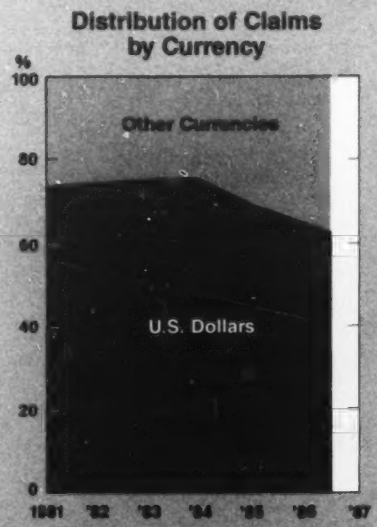


the first three quarters of 1987. There was a corresponding decline in the size of floating-rate issues. Equity-related bonds grew rapidly during 1986 and through October of 1987, spurred on by rising share prices, but have virtually dried up since the stock market crash.

Loans outstanding on the international banking market totaled $4.7 trillion in the first half of 1987, more than twice the $2.3 trillion in 1981. The largest share of these loans is still dollar denominated, although that proportion has been declining since 1982. In 1987, it was 63%, down from 74% in 1981.

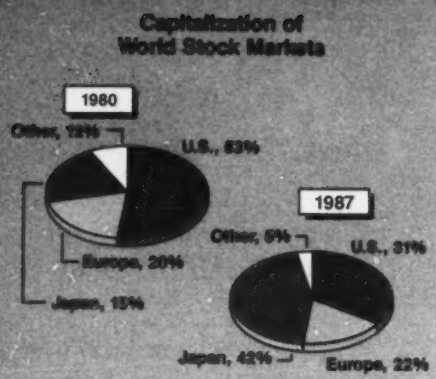


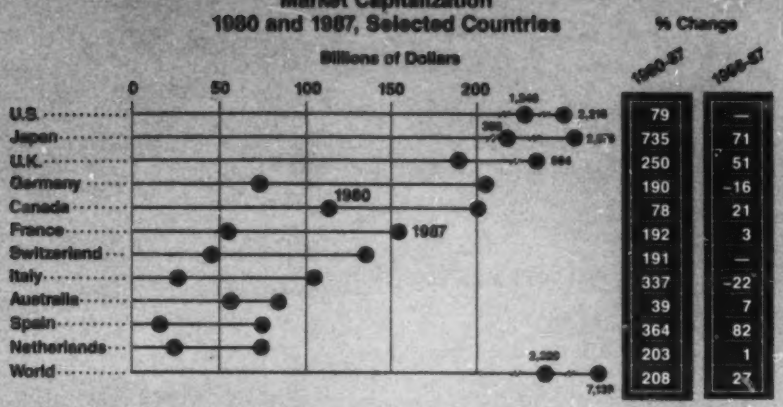


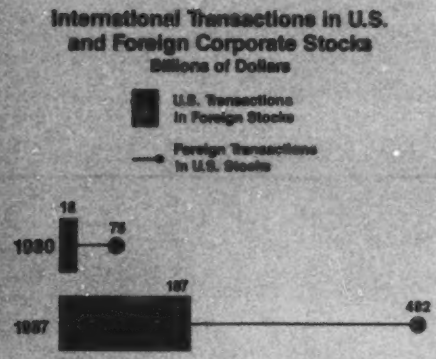


The U.S. securities market has greatly affected markets in the rest of the world, first by its sheer size and secondly by its leadership in innovation. But its share of total volume has declined recently. At the end of 1987, market capitalization of world stock markets totaled $7.2 trillion, of which the United States accounted for 31%, down from over one-half in 1980. The value of the Japanese market surpassed the U.S. market in 1987, rising to $3.0 trillion from $357 billion in 1980, partly because of the appreciation of the yen. The growth in capitalization of most other markets has been faster than in the U.S. market.

U.S. investors have increased their



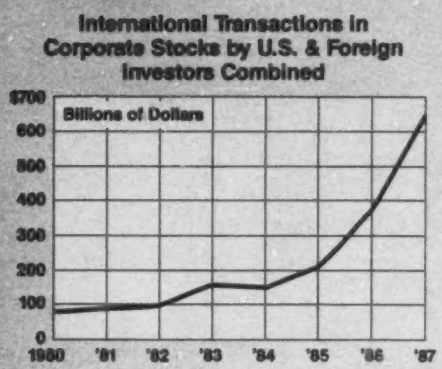


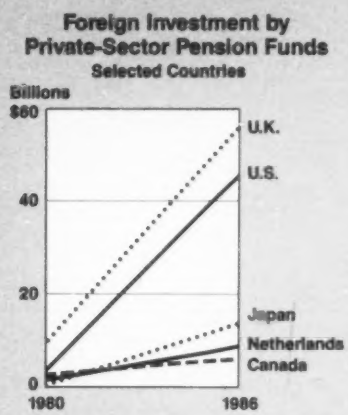


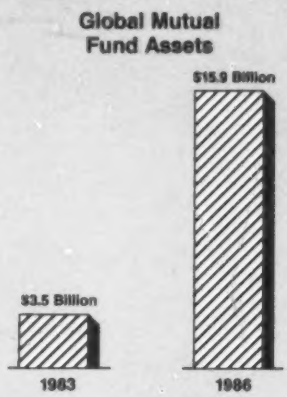
activity (purchases and sales) in foreign stocks fourfold since 1980 to reach $187 billion. Foreign investors' activity in U.S. stocks reached $482 billion in 1987. U.S. pension funds have also increased their overseas investments—from $3.3 billion to $45 billion between 1980 and 1986. That was overshadowed, however, by U.K. pension funds, which put $57 billion overseas in 1986.

Eva Culen

Sources: IMF; SEC; Morgan Guaranty Co; Morgan Stanley Capital; U.S. Department of Treasury; The Conference Board.







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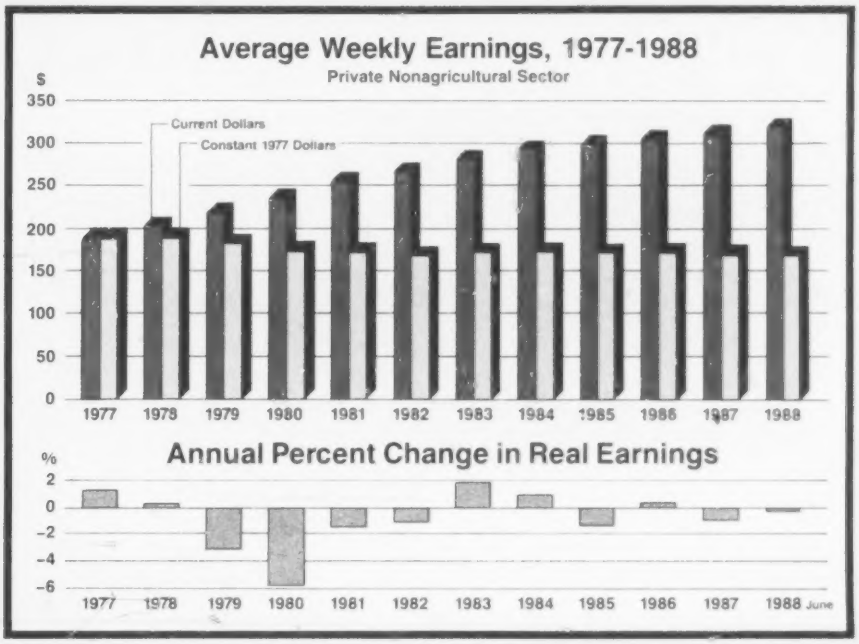
Real Income and Earnings

Nos. 2019-2020 July, 1988

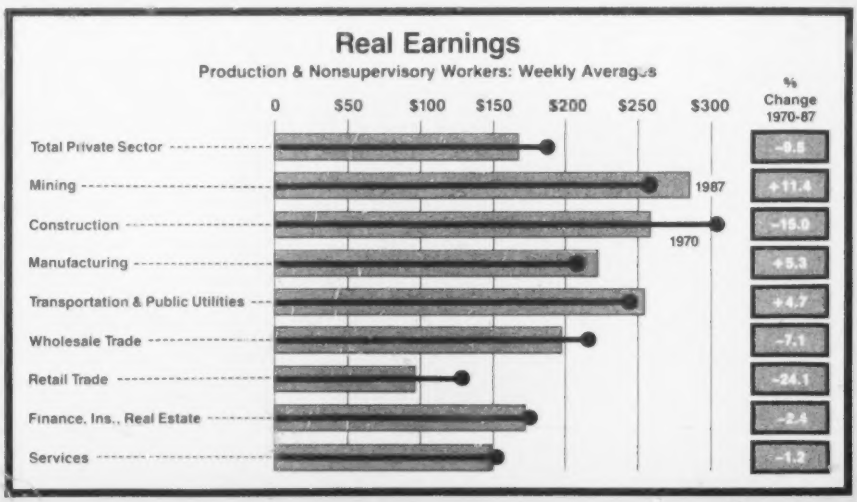
Details on back page

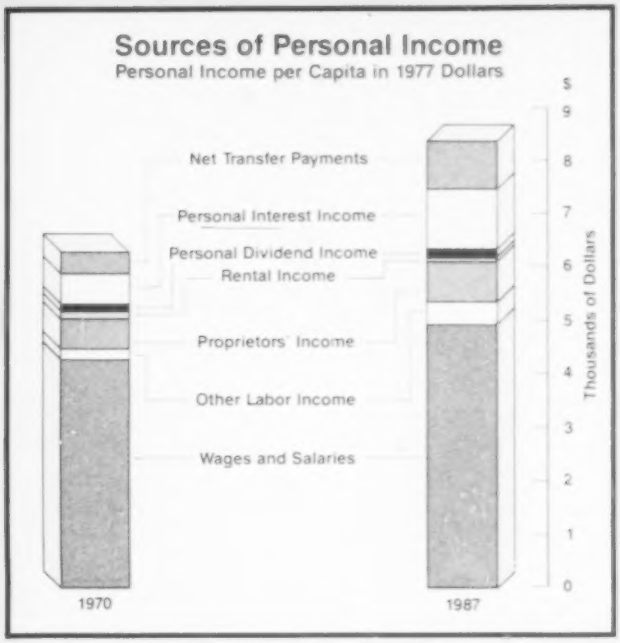
The income and earnings picture in the United States has changed considerably since 1970. Americans have seen their income rise, but that growth has come from such nonlabor sources as government transfer programs and interest and dividend income rather than from wages or other labor income. From 1970 through 1987, rising incomes went hand in hand with declining earnings (measured in constant 1977 dollars). That is, despite a roughly 30% jump in real personal income and accompanying disposable income, the wages of most workers failed to keep pace with inflation. Real average weekly earnings dropped by 10% over the period. Compensation per employee, a measure that includes fringe benefits, rose only marginally.

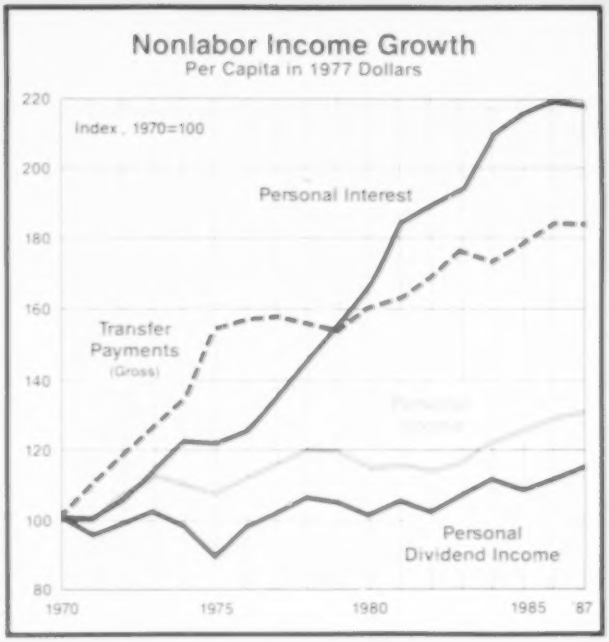


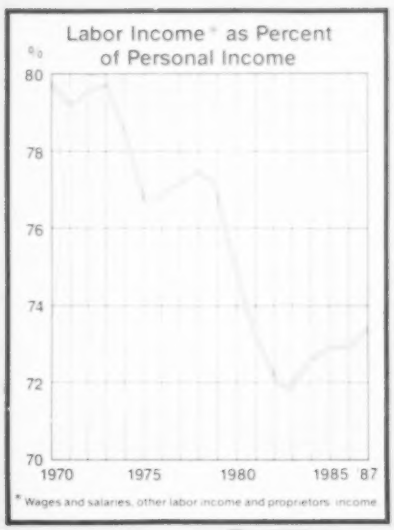
Any analysis of the relative prosperity of U.S. workers and households since 1970 depends heavily on the choice of data. The most narrowly defined measures paint the least favorable picture; broadening the measure tends to improve the appearance of prosperity. When measured in terms of the real average earnings of production workers and nonsupervisory personnel (which excludes salary earners), the typical worker appears less well off now than in 1970. Earnings measured in constant 1977 dollars declined by $20 from 1970 through 1987. Wage and salary earners, a somewhat broader measure (including supervisors, managers, and other employees), fared better but still lag behind their 1970 level. Wages and salaries declined at roughly the same rate as earnings during the 1970 to 1983 period, but have since recovered more rapidly.

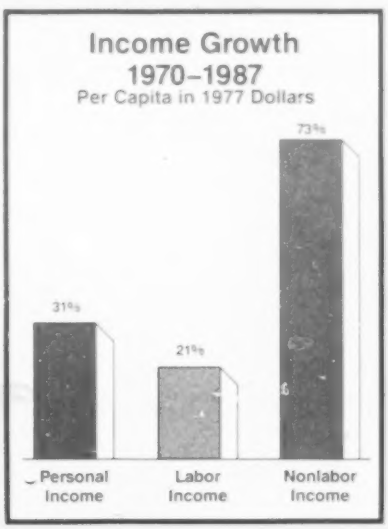
In contrast, personal income—the most broadly defined measure—rose about a third during the 1970 to 1987 period. Its comparative strength reflects the explosive growth in its nonlabor components and the diminishing bargaining power of labor. As a share of personal income, the nonlabor component rose from 20% in 1970 to 27% in 1987. This growth









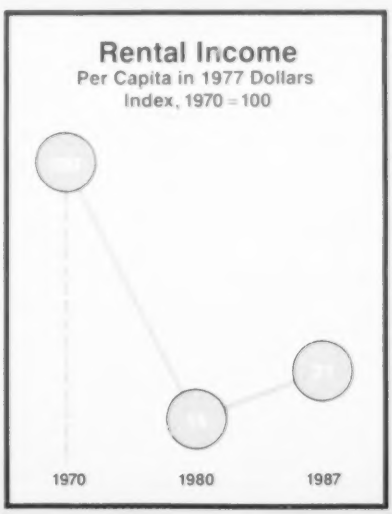


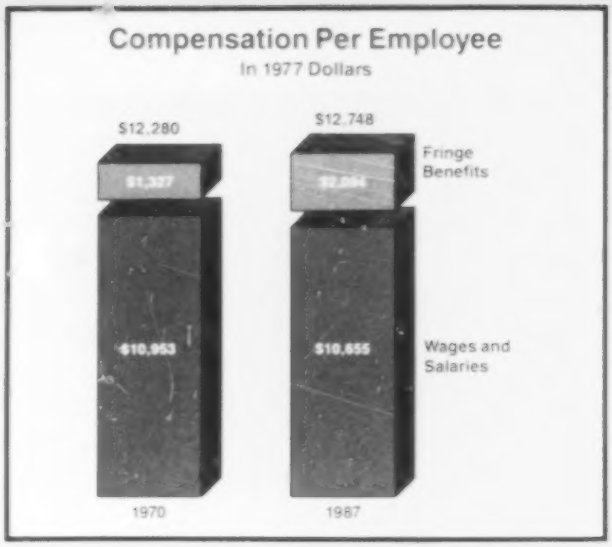
The changes in the structure of income since 1970 appear to mirror changes in the social structure. The size of the average household declined from 3.14 persons in 1970 to 2.66 in 1987, at the same time that the number of employed per household remained constant at about 1.24. With decreases in the number of children per family and a growing proportion of working women, the number of households with two incomes is also on the rise—with important implications for economic well-being. As income per capita grew substantially, the new demographics helped to boost average income per household even more. An

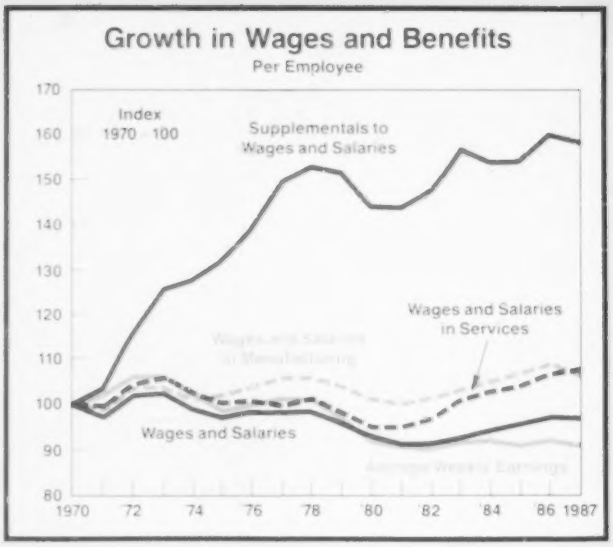
was mainly the result of huge increases in transfer payments (including social security, disability and Medicare benefits, unemployment compensation, aid to families with dependent children, and others) and of soaring interest income. The huge leap in transfer payments reflects the aging of the population, which has swollen the number of Social Security recipients, and a sharp increase in Social Security benefit levels. The transfer payment category is also sensitive to fluctuations in the business cycle, reflecting changes in unemployment compensation and other income-support programs.

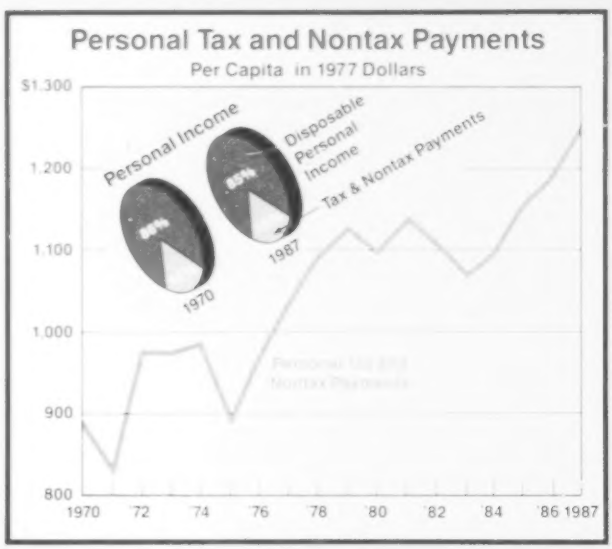
Historically high inflation and high interest rates during much of the period were mostly responsible for bolstering interest income. The cresting of this component in 1986, and its recent decline, could signal an eventual narrowing in the gap between income and earnings.

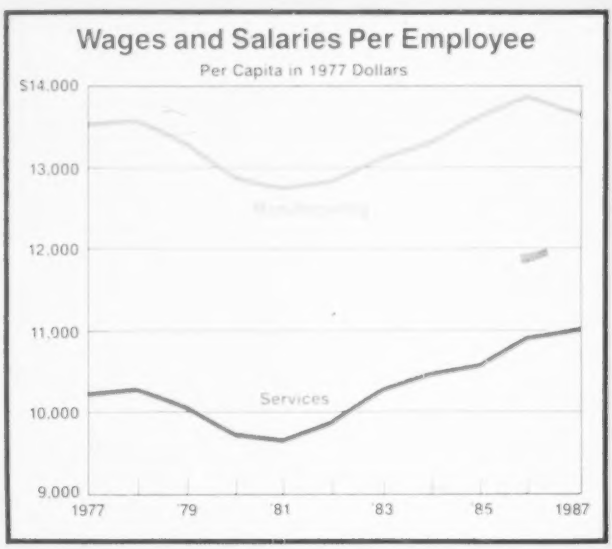
Escalating benefits cushioned workers partially against the decline in real wages. Total compensation edged up, mostly as a result of higher employer contributions (mostly social security and medical insurance). Despite larger nonwage supplements to income, however, and declines in federal income tax rates, the overall tax bite cut deeper into spendable income in 1987 than in 1970.

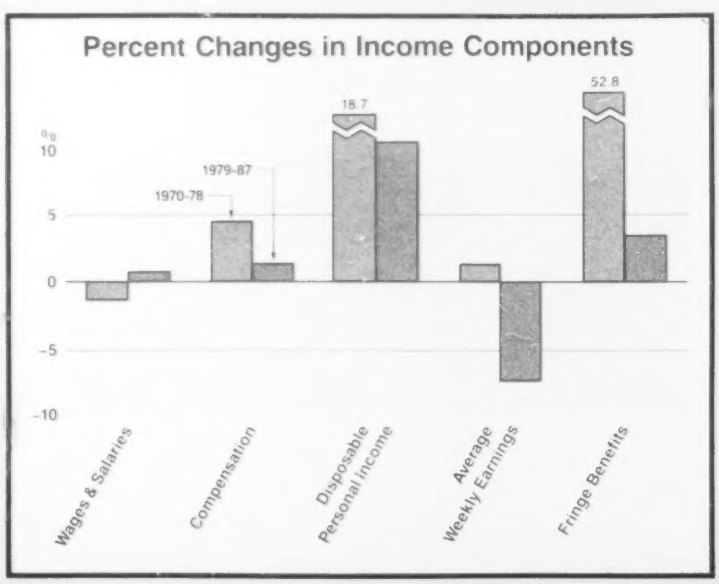








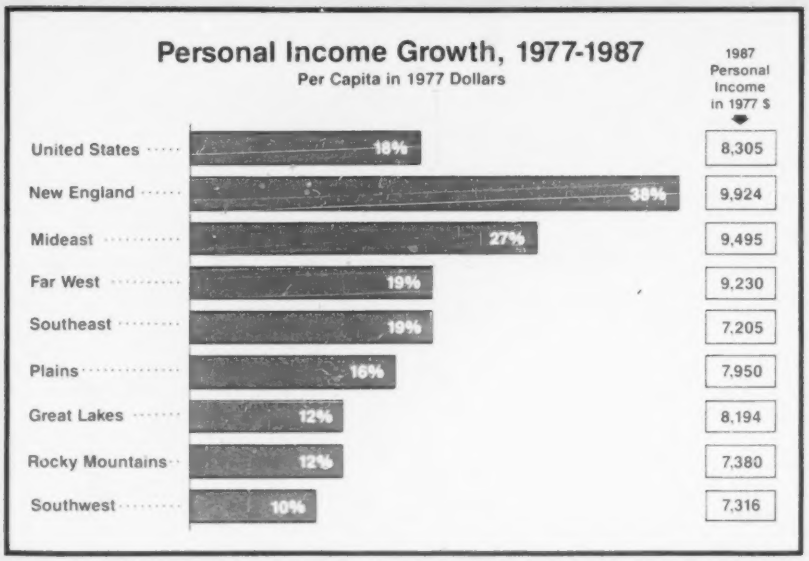




offsetting trend has been the rapid formation of the single-parent household, usually headed by women with children under the age of eighteen. The number of these householders who tend to have well-below-average incomes, rose to over 6 million in 1986, more than double the number in 1970.

Income growth also varied by region. New England and the Mideast experienced the fastest growth, surpassing the national average of 18 percent. The Great Lakes, Rocky Mountain, and Southwest regions lagged furthest behind, while income growth in all other regions approximated the national average.

Globally, some of the major western countries experienced sharp gains in real earnings in manufacturing during the 1980s. These gains were most pronounced in the United Kingdom but also substantial in Germany. However, this good news for wage earners could adversely affect the long-



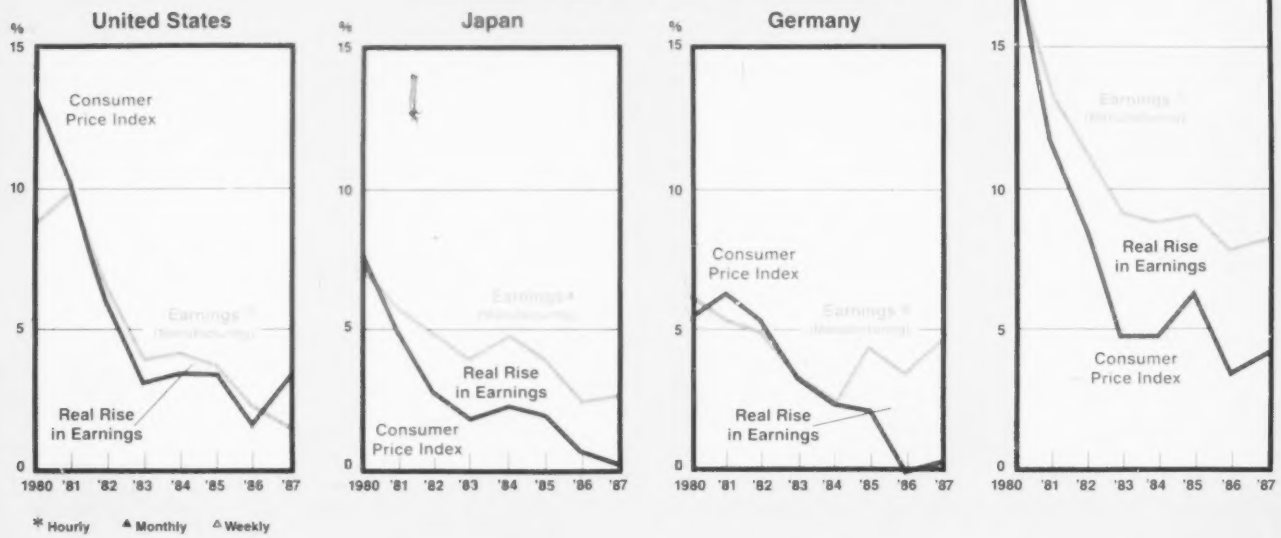
run international competitiveness of these countries, as wage pressures threaten to push up the costs of doing business and to inflate export prices.

Eva Culen

Sources: U.S. Departments of Labor and Commerce; The Congressional Research Service; OECD; The Conference Board.

NOTE: All dollar amounts in the Road Map have been deflated by using the Consumer Price Index for Urban Wage Earners and Clerical Workers, with 1977=100.

Real Earnings in Selected Countries



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